



Wishful Thinking or Valuable Forecasts? The Value of Policy Rate Predictions in Sweden

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Article Information

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Abstract

Economists often provide predictions about future interest or policy rates. In contrast to stock market predictions, these forecasts are typically regarded seriously and presented with a degree of accuracy. This paper explores whether placing more confidence in policy rate predictions than stock market predictions is reasonable. It begins by examining historical policy rates predictions in Sweden, comparing them to actual rates to assess their accuracy. The paper then delves into the discussion of how costs of mispredictions, such as sudden and unexpected policy rate increases, can and should be addressed. Despite the Central Bank making predictions within confidence intervals and the banking sector regulating individuals' borrowing, the burden of unpredicted rate increases falls almost entirely on individuals. The paper addresses whether that is reasonable.

Introduction

Economists commonly make predictions about the future, and for many economists and institutions, making predictions is their main task. For instance, macroeconomists commonly predict, and are quoted on, the rate at which the economy will grow, whether interest rates are going up or down by how much, and what will happen to unemployment and inflation. Central Banks make policy rate predictions and present different scenarios with varying degrees of accuracy. Journalists and people give these predictions considerable attention and seem to place some trust in them.

That the predictions get attention and are referred to is not strange, as most people are affected by future interest rates or how the economy, in general, is developing. In order to make sensible investment and savings decisions, both individuals and firms need to have a sense of how future interest rates will develop.

Recently, due to the sudden and unexpected increase in interest rates, the consequences of higher interest rates for individuals, firms, and the overall economy have been addressed. Most economists predicted that interest rates would remain low for the foreseeable future. As mispredictions, both over- and underpredictions, from actual rates can have major impacts on households' and firms' finances and investment decisions, it becomes relevant to discuss who should carry the cost or risk with mispredictions. That is, who should be accountable when forecasts are off the mark? The Central Bank



